

# ***Change in Status and Evasion***

## *Chapter* **2.5**

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# Change in Status and Evasion

## How does a school's change in status affect the school's cohort default rate?

A school involved in a change in status should be aware that the change may affect the application and calculation of its cohort default rates and that certain sanctions may be applicable to the school after the change in status. After a change in status, cohort default rates are applied to a school according to the type of change in status. Figure 2.5.1 outlines the cohort default rates effects of various types of change in status.

34 CFR 668.184  
34 CFR 668.188

**Figure 2.5.1**

Effect on Cohort Default Rates for Various Types of Change in Status

Type of Change in Status	Historical Rates for the New School	Subsequent Three Year Rates for the New School	Fourth Year and Subsequent Year Rates for the New School	Cohort Default Rate for the Former Parent School
Acquisition or Merger of Schools	The new school's historical cohort default rates will be the cohort default rates for the single school of the schools involved in the change in status with the highest total number of borrowers entering repayment in the combined two most recent cohort default periods.	The new school's cohort default rates are determined by including all the applicable borrowers from each school involved in the acquisition or merger in the cohort default rate calculation.	The new school's cohort default rates are determined by including all the applicable borrowers from each school involved in the acquisition or merger in the cohort default rate calculation.	The former parent school no longer exists.
Acquisition of Branches or Locations	The new school's historical cohort default rates will be the cohort default rates of the new parent school.	The new school's first three cohort default rates published after the date of the change in status will be calculated using the applicable borrowers from both the acquiring school and the school from which the branch or location was acquired.	The new school's fourth cohort default rate published after the date of the change in status and the cohort default rates in subsequent years will be calculated using only the applicable borrowers from the acquiring school.	The former parent school's cohort default rates are not affected by the change in status.
Branches or Locations Becoming Schools	The new school's historical cohort default rates will be the cohort default rates of the former parent school.	The new school's first three cohort default rates published after the date of the change in status will be calculated using the applicable borrowers from both the new school and the former parent school.	The new school's fourth cohort default rate published after the date of the change in status and for cohort default rates in subsequent years will be calculated using only the applicable borrowers from the new school.	The former parent school's cohort default rates are not affected by the change in status.

Because different cohort default rates may be applied to a school after a change in status, the school's eligibility may be jeopardized as a result of a change in status. All schools contemplating a change in status may submit a letter to the U.S. Department of Education's (Department's) Default Management before making the change. The letter should explain the proposed change in status and request guidance regarding the consequences the change in status will have on the school's cohort default rates and the school's ability to participate in the Student Financial Assistance (SFA) Programs. The schools should send a copy of the letter to the schools' case management team and, if appropriate, to the schools' Direct Loan Schools Relations. See Chapter 2.6, "Department Offices and Addresses," for case management team and Direct Loan Schools Relations addresses.

Default Management will send a written response indicating how the historical, current, and future cohort default rates will be calculated based on the proposed change in status. Schools can use this response to evaluate whether the change in status will be beneficial or detrimental to the schools involved in the change.

If a school decides to change its status, the school should submit a change request. For more information on submitting a change request, visit

<http://www.eligcert.ed.gov>

Once a change in status occurs, any of the schools whose rates are affected by the change in status can request a loan record detail report for any of the other schools whose borrowers were included in its rates as a result of the change in status. See Chapter 2.3, "Loan Record Detail Report," for information on requesting an official loan record detail report. Further, after a change in status, a school may submit a challenge, adjustment, or appeal based on the data for another school's borrowers, under the same requirements that would be applicable to the other school, if the loans for those borrowers affect the school's cohort default rate.

Under certain circumstances, a school involved in a change in status may be required to assume the sanctions of another school involved in the change in status if the change is considered an attempt to evade cohort default rate sanctions.

**What types of actions are considered attempts at evasion of cohort default rate sanctions?**

A change in status is considered an attempt to evade cohort default sanctions if all the following conditions are met:

- ❖ Before the change occurred, one of the schools involved in the change in status was subject to a sanction based on its cohort default rate.
- ❖ The eligible school and the school subject to sanction are both parties to a transaction that results in a change of ownership, a change in control, a merger, a consolidation, an acquisition, a change of name, a change of address, any change that results in a location becoming a freestanding school, a purchase or sale, a transfer of assets, an assignment, a change of identification number, a contract for services, an addition or closure of one or more locations or branches or educational programs, or any other change in whole or in part in the school's structure or identity.
- ❖ Following the change in status, the changed school offers an educational program at substantially the same address at which the sanctioned school had offered an educational program before the change.
- ❖ There is a commonality of ownership or management between the changed school and the sanctioned school, as the sanctioned school existed before the change.

A commonality of ownership or management exists if, at each school, the same person, or members of that person's family, directly or indirectly holds or held a managerial role or has or had the ability to substantially affect the school's actions.

All schools contemplating a change in status may submit a letter to Default Management before making the change. The letter should explain the proposed change in status and request guidance regarding the consequences the change in status will have on the school's status. The school should send a copy of the letter to the school's case management team and, if appropriate, to the school's Direct Loan Schools Relations. See Chapter 2.6, "Department Offices and Addresses," for case management team and Direct Loan Schools Relations addresses.

Default Management will determine if the change in status results in evasion of cohort default rates and will send a written response indicating if the changed school will be subject to sanction and, if so, the scope and duration of the sanction. If a school that is already subject to sanction combines with another school, the new school has the same challenge, adjustment, and appeal options as the school that was subject to sanction before the change in status. That is, if the school that was subject to sanction before the change in status had exhausted all means of adjustment and/or appeal, the new school has no adjustment and/or appeal rights. If the school that was subject to sanction before the change in status did not exhaust all means of adjustment and/or appeal, the new school has the right to follow up with an adjustment and/or appeal that would be within the same time frames as the school that was subject to sanction before the change in status.